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INFO RUEHBOAMEMBASSY BOGOTA PRIORITY 8035

C O N F I D E N T I A L CARACAS 001029

SIPDIS

SECSTATE PASS AGRICULTURE ELECTRONICALLY

E.O. 12958: DECL: 08/03/2029  
TAGS: [ECON](#) [EAGR](#) [ETRD](#) [VE](#) [PGOV](#)  
SUBJECT: THERE'S TROUBLE BREWING: VENEZUELAN COFFEE  
INDUSTRY UNDER ATTACK

Classified By: Randall Hager, Agricultural AttachQ, for reasons 1.4 (b)  
and (d)

¶1. (C) SUMMARY: Government intervention in Cafe Madrid and Fama de America, two of Venezuela's leading coffee processors, began the weekend of August 1-2 for alleged violation of government production and supply regulations. Minister of Agriculture and Lands Elias Jaua stated that non-compliance with government dictates could result in expropriation, a claim subsequently backed up by President Chavez the night of August 4. Harassment of the industry continues, perhaps to cover the failure of misguided government coffee production policy and the misallocation of funds applied to the sector. END SUMMARY.

¶2. (C) On August 1, Minister Jaua, along with Minister of Commerce Eduardo Saman, and Silos Superintendent Carlos Osorio announced government intervention in Cafe Madrid and Fama de America, coffee processors that represent about 80 percent of the local market, for supposedly exporting coffee to Colombia, hoarding, and overpaying farmers for raw beans. Jaua further claimed that these companies were "monopolies" not allowed under Venezuelan law. President Chavez went one step further in a speech the night of August 4, saying, "...we are doing a study to expropriate them, and they will pass to the people and the nation..." NOTE: Given the gap between controlled prices in Venezuela and higher market prices in Colombia, some coffee beans likely do cross the border. However, the Ministry of Agriculture and Superintendent of Silos require onerous documentation of these companies' processing operations, and thus it is unlikely that they could export any notable amount. END NOTE.

¶3. (C) According to Jaua, coffee availability in Venezuela is not sufficient due to a lack of rainfall in growing regions, and illegal exports. The Embassy believes that rainfall has had some effect on total output. However, fixed output prices against rising production costs and ineffective government support are the more important factors.

¶4. (C) According to Pedro Vicente Perez (protect), a leading coffee producer and member of FENDEAGRO (Venezuela's most important umbrella

organization for agricultural producers), anyone who dares speak out against the official line risks harassment. In fact, during a recent conversation with AgSpecialist, Perez noted that officials from the National Land Institute (INTI) were about to visit his farm, with a real possibility of his land being summarily taken from him. As a result of his press statements earlier this year warning of possible coffee shortages, he was called a "liar" and subject to other derogatory comments by Minister Jaua.

15. (C) Venezuela's so-called Plan Cafe, initiated about five years ago, purports to provide significant support to domestic coffee producers via technical assistance and credit. Despite significant funds allocated, some Bs. 700 million in the last few years (or approximately \$325.5 million at the official exchange rate), industry commentators note that production has declined.

16. (C) COMMENT: Producers directly warned government officials of possible lower production and the potential need for imports months ago. Government officials dismissed these warnings and are now using the current shortages to justify government nationalization.  
DUDDY